HTC purenergy

CARBON CLEAR SOLUTIONS

ANNUAL REPORT 2006

CO_2 Capture
Post and Pre Combustion

CO_2 Enhanced
Oil Recovery

CO_2 Geological
Sequestration

TO OUR SHAREHOLDERS

HTC Purenergy ("HTC" or the "Corporation") is commercializing CO_2 capture/storage technologies for Enhanced Oil Recovery ("EOR") and geological sequestration and is developing and commercializing hydrogen production and bio-fuel technologies.

The product development centre of HTC Purenergy, is based at the International Test Centre for CO_2 Capture ("ITC"), located on the campus of the University of Regina in Saskatchewan, Canada.

HTC is an energy technology company, whose mandate is to deliver "Carbon Clear Solutions" to solve the pending challenges of energy security and the environmental impact of greenhouse gas emissions which has been identified as the primary source of Global Warming.

Providing real solutions, to the puzzle of global warming.

2006 Achievements

HTC continued advancing commercialization during the 2006 year ("Year"). Global warming has taken a front and centre position in most countries around the world. This is evident by the success of such recent videos as Al Gore's – "The Inconvenient Truth" and daily newspaper articles on the effects of global warming. HTC is accelerating its business and project development efforts to bring its product offer to those emitters that are looking for a "**carbon clear solution**" to their emissions problems.

Branding

Over the last year HTC has been actively promoting the Corporation and services at a variety of Canadian and International venues where HTC's message has been well received. HTC has taken advantage of this increasing global warming awareness by building its brand awareness world wide. This was accomplished by increased media exposure, speaking at various trade shows and conferences and focusing on HTC's relationship with the world renowned ITC located at the University of Regina.

In addition, HTC has developed a commercial branding product offering that it is selling to utilities and other large CO_2 emitters world wide. HTC is matching these emitters with commercial users of CO_2 such as oil companies that can take advantage of CO_2 EOR flooding. HTC's product offer continues to expand as HTC adds new product lines such as modular plant design, designer solvents, new methods of process integration, engineering and design. The Corporation is working diligently in delivering commercial projects in the 2007 fiscal year.

Corporate Expansion and Commercialization

HTC has initiated corporate expansion and commercial activities in the following jurisdictions:

Norway

During this Year HTC has completed a comprehensive design and engineering project for the construction of a CO_2 capture system on a 420 megawatt power generation facility in Norway. HTC is utilizing technologies developed and acquired by HTC as well as technologies developed at the ITC, and is being provided engineering and construction assistance from Bechtel Power Corporation, the world's largest power plant builder. HTC is currently involved in a number of additional CO_2 capture bid proposals in Norway. Norway is one of the world's leading proponents of CO_2 capture and sequestration, and has translated this desire to deal with CO_2 issues by financing a number of real capture and sequestration projects.

China

HTC, in conjunction with a new Beijing China based strategic partner, has formed a new commercial group under the name HTC International Inc. This new group is focusing on marketing and deploying HTC's CO_2 Management Technologies in China. During the Year, HTC engaged a number of

Chinese delegations in Regina, and as follow up to the delegations HTC was invited to submit its technology and product offer at a number of CO_2 conferences in China. Subsequently, HTC has submitted commercial CO_2 management proposals to China's two largest oil companies.

China is the most populated country in the world. As a result of the expanding Chinese economy the demand for coal energy has increased from 66 gigawatts in 1980 to 420 gigawatts in 2004 (consequently, a substantial amount of new power plants have to be built each year). With increased international pressure to deal with China's internal CO_2 issues, China is a prime candidate for utilization of HTC's CO_2 Management Technologies.

Canada

HTC is working with four of Western Canadian large CO_2 emitters to develop CO_2 capture and processing infrastructure to supply the growing CO_2 EOR market. With the changing political climate in relation to green house gases, HTC anticipates there will be a major CO_2 capture and sequestration project underway during the next fiscal year.

United States

The United States ("U.S."), although not a Kyoto signing country, has been identified as a prime target market due to its strong demand for "clean coal technologies" and the need to increase domestic oil production via EOR techniques utilizing CO_2. The U.S. Government is now leading an initiative to be "less dependent on foreign energy sources" and has mandated that "clean coal technology" be implemented and have committed substantial funding through the U.S. Department of Energy to assist in the acceleration of this strategy.

HTC accelerated product and project commercialization during the Year and has opened a United States based sales office. This U.S. sales office will be responsible for strategic joint ventures with targeted industry leaders including EPC contractors, OEM system suppliers, CO_2 emitters, CO_2 EOR service providers and project financiers. HTC is currently working on a number of projects in the U.S. On August 4, 2006, HTC signed a two year Commercial Alliance and Services Agreement valued at \$2,000,000 USD to provide CO_2 EOR, CO_2 Sequestration and CO_2 Management Services to a U.S. based IGCC utility that also has an operating IGCC plant in the United Kingdom.

Our North East U.S. sales office will assist in development of European operations where there is a number of new CO_2 capture and sequestration projects anticipated to go ahead in the United Kingdom and in Germany.

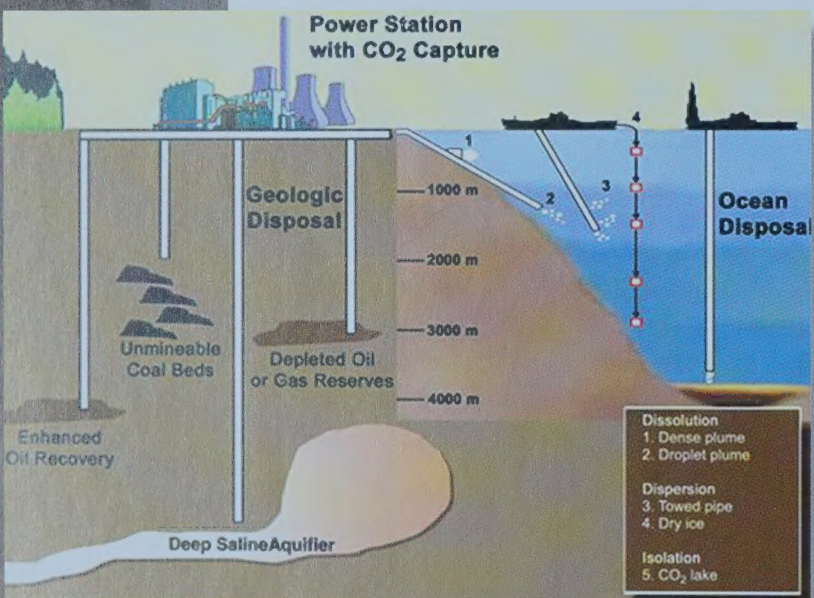
Australia

Australia continues to be a key target for HTC's products due to Australia's increasing demand for carbon clear solutions and its focus and commitment to deal with its greenhouse gas issues. The Australian Government has committed to reduce green house gases in a meaningful way

through funding commitments to build CO_2 capture facilities, introduction of a carbon trading mechanism and assistance in the development of a hydrogen production infrastructure.

HTC's commercial team in Australia continues to develop business relationships with many of Australia's largest CO_2 emitters and resource companies and has positioned HTC's Purenergy solutions as CO_2 capture and hydrogen production leaders. Many of these large CO_2 emitters are now making proactive decisions with regard to how they are going to manage their CO_2 liabilities now and in the future. HTC is well positioned to take advantage of this market by having an office located in Sydney, Australia.

CO_2 Geological Sequestration



To solidify its Australian presence and abilities HTC exercised its option to acquire all the issued and outstanding shares of CO_2 Technologies Pty Ltd ("CO_2 Technologies"), an Australian based corporation established to develop business opportunities emerging from a carbon constrained economy. This acquisition has secured the services of CO_2 Technologies exclusively for HTC and all project development opportunities that have been initiated by CO_2 Technologies globally have been assigned to HTC.

CO_2 Technologies has developed strong working relationships with government agencies, industry associations, utilities and engineering groups aligned to the energy sector, who are advancing the reduction of greenhouse gas emissions. The research and market profiling model CO_2 Technologies has developed, will be utilized by HTC to advance its project development commercialisation opportunities. The principals of CO_2 Technologies have secured strategic alliances and projects globally, that HTC will benefit from. This team is also responsible for the general management of the China operations.

Saudi Arabia

During the Year, HTC signed an agreement with Environmental Protection Technical Services Est. of Khobar, Saudi Arabia, to set up a jointly owned company under the name of HTC Gulf LLC, to ultimately provide HTC's CO_2 carbon management products and services to Saudi Arabia and other Gulf Coast countries in the Middle East. Saudi Arabia has shown particular interest in CO_2 capture for EOR and could be a substantial market for HTC's product offering.

Competition

CO_2 Capture

There are a number of companies vying to develop specific CO_2 capture solutions from coal, natural gas and industrial flue gas stacks. The Corporation believes that its CO_2 capture suite of technologies has many competitive advantages that will improve overall CO_2 capture efficiencies and facilitate their commercialization, including new aggregated technologies and HTC's

association with the ITC and it's complete suite of carbon management services.

CO_2 Enhanced Oil Recovery and Geo-Sequestration

There are a number of competitors world wide that provide consulting engineering on EOR. HTC has the advantage in that it provides a complete "source to sink" solution for the customer. HTC has the ability to integrate all of this, to provide the customer with a seamless solution tailored to the customers unique operation requirements. In addition, HTC's access to the ITC provides the ability to experimentally test and evaluate new technologies for the customer before being implemented in the commercial setting, as well as monitoring ongoing operations to ensure processes are operating up to designed specifications for EOR and Geo-sequestration.

New Products Pipeline

Hydrogen Production

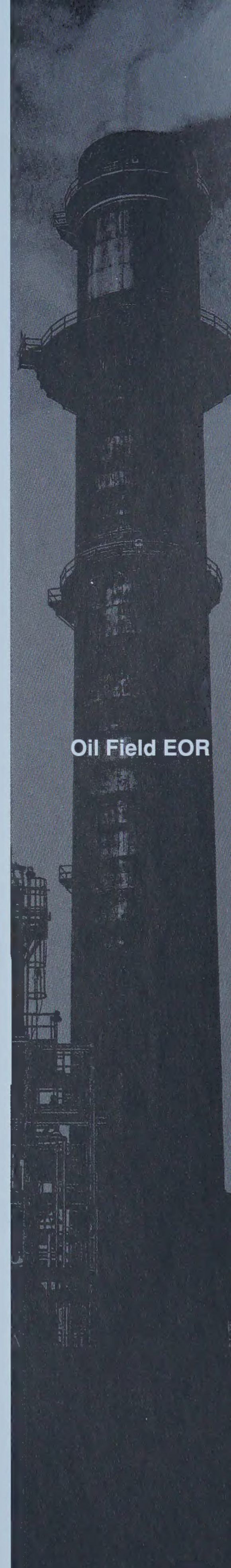
There are a number of competing technologies for the on-site manufacturing of hydrogen, none of which has been adopted as the "defacto leader" in on-site reformation. The Corporation believes HTC's hydrogen production technologies have a competitive advantage due to simplicity of design, ease of delivery of hydrogen based on the existing natural gas network, advanced and improved catalysts, process CO_2 use/capture and scalability of the technology.

HTC continues to aggregate new technologies and has completed during the Year an agreement to acquire all the issued and outstanding shares of BTC BioEnergy Technologies Corp. ("BTC"). BTC was a private Saskatchewan based company, established to develop renewable energy from bio-resources. BTC is co-sponsoring a "Clean Energy Technology Chair" at the University of Regina and has collaborative research and patent licensing agreements with the University of Regina. BTC is currently developing renewable energy from oxygenated hydro carbons, including pre-distilled ethanol and glycerol, which will help make the bio-fuel energy process more efficient.

HTC has started the engineering and design of a multi-fuel hydrogen production demonstration unit which will feature both the methane and bio-fuel technologies developed by BTC and HTC. Projected building of the demonstration plant is planned for fiscal 2007.

Financing

To assist with the Corporation's scale up to commercialization and a positive cash flow, HTC has been involved in capital raising during the Year. The Corporation has been diligent in protecting the capital base, and despite the significant accomplishments the Corporation has shown over the past few years, it continues to maintain a tightly held corporation and burn rate. The Corporation plans to continue to explore financing opportunities to allow it to meet its ultimate commercialization objectives.



Oil Field EOR

2007 Objectives and Milestones

HTC is excited about the prospects of the 2007 year. With the increased interest and controversy associated with CO_2 emission, the amount of political debate world wide and the amount of interest sensed in the markets, we are optimistic that a project will be forthcoming. HTC is already pursing a number of proposals on a variety of projects, from capture of emission for pipeline transmission to sequestration projects in Canada, the U.S. and Europe, to EOR. Some of the targets HTC has identified for 2007 are summarized below:

Commercialization

- Engage major utilities and CO_2 emitters world wide in an effort to match CO_2 emitters with EOR projects.
- Strengthen existing relationships with corporations that will play a pivotal role in construction of CO_2 capture facilities and new coal plants and actively pursue contacts in specific local markets.

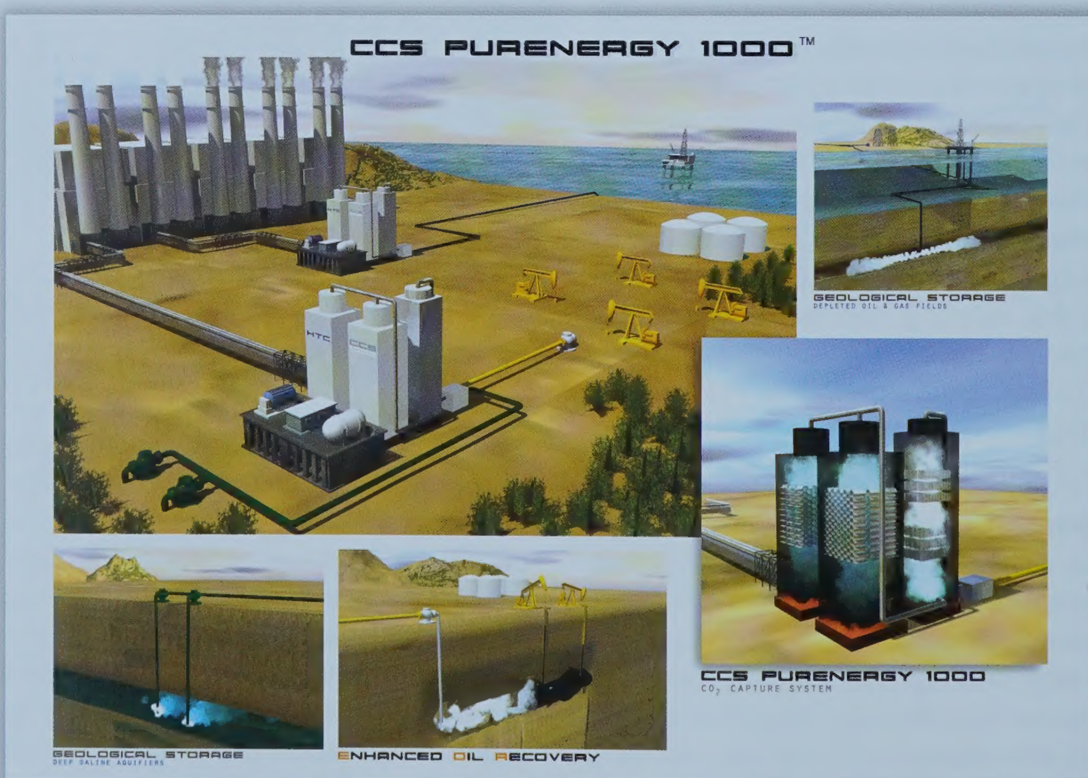
Corporate Expansion

- Appoint a Chief CO_2 project manager.
- Expand operations in Middle East to include the United Arab Emirates and Bahrain.
- Continue the process of identifying new technologies that can be integrated into the HTC Suite of Technologies.

Technology Development

- Engineer and build and introduce a HTC CCS Purenergy 1000 pre-engineered modular OEM CO_2 capture system.
- Engineer and build the HTC multi-fuel bio-reformation demonstration plant.
- Develop new synthesized CO_2 capture solvents.
- Continued optimization of CO_2 capture process integration

HTC's Design for CO_2 Capture Unit



MANAGEMENT DISCUSSION & ANALYSIS

Introduction

The following Management Discussion and Analysis prepared as of April 30, 2007 should be read together with the Corporations Audited Consolidated Financial Statements for the year ended December 31, 2006 (the "Year") and related notes attached thereto, which are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All amounts are stated in Canadian dollars unless otherwise indicated.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls, including written policies and procedures. These measures provide reasonable assurance that transactions are authorized, assets are properly safeguarded and reliable financial records are maintained for external purposes in accordance with GAAP. Management believes the Corporation's internal disclosure controls and procedures over financial reporting to be effective.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward looking statements.

HTC is a developmental stage company. Additional information related to HTC Hydrogen Technologies Corp. ("HTC" or the "Corporation") is available for view on SEDAR at www.sedar.com.

Risks and Uncertainties

Risks and uncertainty relate to management's ability to seek out and perform timely due diligence to aggregate targeted energy technologies. Full commercialization is dependent on CO_2 emitters being incentified or legislated to adapt CO_2 capture technology and the adoption rate of the new hydrogen economy.

Revenues in respect to the 2004 year resulted from services provided to the subsidiary acquired in late December 2004 and accordingly were eliminated in respect to the 2005 and subsequent years.

Selected Annual Information

Audited	2006	2005	2004
Revenue	306,892	NIL	269,160
Net Income (Loss) For the year	(2,120,982)	(2,234,643)	49,546
Earnings (Loss) per share	(.20)	(.23)	.01
Total Assets	12,059,403	11,420,675	10,176,128
Long-term Liabilities	NIL	NIL	NIL
Shareholder Equity	11,927,678	11,398,856	10,108,398
Cash flow from Operations	(1,381,050)	(1,417,209)	98,681
Increase (de-crease) in cash	(970,698)	1,326,003	39,611

Cumulative Results by Quarter (Unaudited)

	2006				2005			
Unaudited	1st Qtr Mar 31 $	2nd Qtr June 30 $	3rd Qtr Sept 30 $	4th Qtr Dec 31 $	1st Qtr Mar 31 $	2nd Qtr June 30 $	3rd Qtr Sept 30 $	4th Qtr Dec 31 $
Revenue	Nil	36,750	278,829	306,892	Nil	Nil	Nil	Nil
Net Income (Loss) from Operations	(540,997)	(1,177,392)	(1,536,894)	(2,121,902)	(476,379)	(1,356,451)	(1,857,114)	(2,234,643)
Total Assets	10,872,241	10,878,559	10,534,674	12,059,403	10,036,452	11,985,285	11,844,072	11,420,675
Long-term Liabilities	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Shareholder Equity	10,857,859	10,811,213	10,523,073	11,927,678	10,027,446	11,891,110	11,827,947	11,398,856
Cash flow from Operations	(432,766)	(855,511)	(1,128,808)	(1,381,050)	(83,824)	(714,953)	(1,182,673)	(1,417,209)
Increase (decrease) in cash	(698,186)	(536,938)	(802,394)	(970,698)	548,849	2,658,131	2,626,913	1,326,003

Per Share Amounts

Basic net earnings (loss) per common share have been calculated using the weighted average number of common shares outstanding during the Year ending December 31, 2006 of 10,146,192 (2005 – 9,701,440).

	For the year ended **Dec. 31, 2006**	For the year ended **Dec. 31, 2005**
Net earnings (loss) per common share	$ (.20)	$ (.23)

Diluted net loss per common share is not presented, as the effect of common share options would be anti-dilutive.

Revenues

For the Year ended December 31, 2006 the Corporation had operating revenue of $306,892 as well as some consulting income. This revenue reflects the start of commercialization revenue for the Corporation. The Corporation is currently in the process of negotiating on a number of commercial proposals, which will be reflected in future quarters.

Interest and Other Income

The Corporation recorded interest and other income for the Year in the amount of $132,977 from bank interest earned and other income and non-controlling interest of $29,860, compared to $24,789 in the same period of the prior year related to interest earned on the short and long term investments. The increase is attributable to other income received of $ 72,574 relating to research grants and bank interest earned upon redemption of the 1,000,000 GIC short term investment which matured at the end of December, 2006.

Operating Expenses

Commercialization, Product Development and Administrative expenses for the Year were $1,811,626 as compared to $1,309,973 for the same period in the previous year.

Research and Development expenses for the Year were $155,572 as compare to $329,169 for the same period in the previous year. These expenditures and related intellectual property protection costs

represent HTC's on-going commitment to product development at the University of Regina. The reduction in Research and Development expenditures is attributable to a reduction of payments due under the funding agreement.

A significant portion of expenses, in the amount of $603,515 represents amortization of intangibles associated with the acquisition of HTC Hydrogen Thermochem Corp. ("Thermochem"). The remaining amortization is attributable to operating assets.

Operating Loss

For the Year ended December 31, 2006 the Corporation had a net loss of $2,284,739 from operations as compared to a net loss of $2,259,432 from operations for the prior year. The variance is a result of normal operational fluctuations and $306,892 in revenue recognized in the current period.

Total Assets

Total assets were $12,059,403 as at December 31, 2006, as compared to $11,420,675 as at December 31, 2005. The increase in total assets is due primarily to the increase in goodwill and intangibles resulting from the acquisition of BTC BioEnergy Technologies Inc. ("BTC") and CO2 Technology Pty Ltd ("CO_2 Technologies"). Included in total assets for both comparative dates is a short term investment of $1,000,000 GIC maturing in December 2006 bearing interest at 3.95%.

Current Liabilities

Current liabilities were $131,725 as at December 31, 2006, as compared to $21,819 as at December 31, 2005. Increase is primarily due to accounts payable additions resulting from new company acquisitions.

Shareholder's Equity

As at December 31, 2006 shareholders' equity was $11,927,678 as compared to $11,398,856 as at December 31, 2005. Changes are due primarily to additional capital raised during the year (see below).

Cash Flow

Cash flows from operating activities were ($1,381,050) for the twelve month period ended December 31, 2006, compared to ($1,417,209) for the same period ended December 31, 2005.

Change in Cash Position

The decrease in cash position occurring between the nine month period ending September 30, 2006 and the twelve month period ending December 31, 2006 of $252,242 is largely attributable to ongoing operational expenditures. Changes in Cash position between December 31, 2006 and 2005 of (970,698) are largely attributable to the ongoing commercialization process as well as continuing research initiatives.

Liquidity

These Consolidated Financial Statements have been prepared on the going concern basis which assumes that the Corporation will realize the carrying value of its assets and satisfy its obligations and commitments as they become due in the normal course of operations. If the going concern basis was not appropriate for these Consolidated Financial Statements, then adjustments would be necessary in the carrying value of assets and liabilities and the reported expenses and the balance sheet classification used.

Management believes there are sufficient funds to meet existing obligations and will raise additional funds by means of private placements, public offerings and licensing/royalty opportunities with respect to its intellectual property.

The Corporation will continue to raise capital to forward its plans of intellectual property protection, continued research and development, demonstration plants, acquisition of complimentary technologies and commercialization of these developed and aggregated technologies.

Long-term Commitments

On July 18, 2005 the Corporation entered into a Sponsors' Agreement with the University of Regina, the International Test Centre for CO_2 Capture ("ITC"), providing the Corporation access to CO_2 capture technologies developed by the ITC. In terms of the agreement the Corporation is obliged to pay $50,000 USD, annually, for a period of 3 years.

On May 17, 2006 the Corporation extended its agreements with the University of Regina through the execution of a Memorandum of Understanding for research and experimental development and licensing. This document was finalized in an agreement executed on December 8, 2006 with an effective date of June 1, 2006 and was amended by written agreement on December 8, 2006. In terms of the agreement, HTC will sponsor an Industrial Research Chair in Clean Energy at the University of Regina until May 31, 2008, with an option to renew for a two year period. During the term of this agreement, HTC will supply personal services of a research scientist, Thermochem will make quarterly payments for consumables and equipment of approximately $8,500 and BTC will make quarterly payments of $33,320 plus consumables to the University of Regina. The University of Regina and HTC further agreed to extend their previously signed Collaborative Research Agreement until May 31, 2008. The Collaborative Research Agreement facilitates research on producing hydrogen by the CO_2 reforming of natural gas, as well as bio-fuel development under recently acquired BTC.

On August 4, 2006, HTC signed a two year Commercial Alliance & Services Agreement valued at $2,000,000 USD to provide CO_2 EOR, CO_2 Sequestration and CO_2 Management Services to a United States based IGCC utility.

The Corporation leases office space under an operating lease expiring August 31, 2007. Minimum lease payments to expiration are as follows:

2007	$16,575

Subsequent to the Year, HTC signed an agreement with Environmental Protection Technical Services Est. of Khobar, Saudi Arabia, to set up a joint company ownership under the name of HTC Gulf LLC, to ultimately provide HTC's CO_2 carbon management products and services to Saudi Arabia and other Gulf Coast countries in the Middle East.

On February 28, 2007 HTC acquired all the issued and outstanding shares of Performance CO_2 Integration Inc. in exchange for 190,000 Class A common shares of HTC, for purchase consideration of $499,700. The value of each common share issued of $2.63 was based on the average closing market price of the Corporation's common shares three days prior and three days subsequent to the to the acquisition date being February 28, 2007. The acquisition will be accounted for using the purchase method of consolidation.

Capital Resources

On April 12, 2005 the Corporation closed a private placement issuing 910,250 units, each unit consisting of one common share and one-half of one common share purchase warrant at a price of $10.00 per unit for gross proceeds of $3,641,000 (net proceeds after costs $3,525,101). Each whole warrant entitled the holder to acquire one common share at a price of $10.00 per share until April 11, 2007.

On April 10, 2006 the Corporation issued 151,430 units, each unit consisting of one common share and one common share purchase warrant for the gross proceeds of $589,749 ($530,000 USD). Each warrant entitles the holder to acquire an additional one common share until July 1, 2007 for the Canadian equivalent of $5.00 USD per share on the exercise date.

Share Capital

Authorized:
An unlimited number of common shares
An unlimited number of preferred shares

Issued:	**As at December 31, 2006**		**As at December 31, 2005**	
	Number	**Amount $**	**Number**	**Amount $**
Common shares				
Balance, beginning of year	9,957,399	$14,656,489	9,047,149	$11,131,388
Issued under private placement	151,430	589,749	910,250	3,525,101
Issued under exercise of stock options	–	–	–	–
Issued to acquire BTC BioEnergy Technologies Corp.	591,500	803,595	–	–
Issued to acquire CO_2 Technologies Pty Ltd	602,000	1,256,460	–	–
Balance, end of Year	11,302,329	$17,306,293	9,957,399	$14,656,489

International Test Centre, U of R, Regina, SK – Home of HTC Technical Services Centre

On November 24, 2006, HTC exercised its option to acquire CO_2 Technologies, an Australian corporation. The Corporation issued 602,000 Class A common voting shares in exchange for all the issued and outstanding shares of CO_2 Technologies. CO_2 Technologies has developed strong working relationships with Government Agencies, industry Associations, utilities and engineering groups aligned to the energy sector, who are advancing the reduction of greenhouse gas emissions.

On December 20, 2006, the Corporation acquired all of the issued and outstanding shares of BTC in exchange for 591,500 Class A common voting shares of HTC. BTC is currently developing renewable energy from oxygenated hydro carbons, including pre-distilled ethanol and glycerol, which will help make the bio-fuel energy process more efficient.

Stock options and warrants:

During the Year, there were no stock options issued to directors, officers, employees or consultants.

The following table reflects the stock option and warrants activity from December 31, 2005 through December 31, 2006 and the weighted average exercise price.

On April 10, 2006, 151,430 shares were issued, including an option to acquire 151,430 additional shares at $5.00 USD. per share, ($5.83 CAD as at December 31, 2006) expiring July 1, 2007.

Off-balance Sheet Arrangements

Other than described herein the Corporation has no off balance sheet arrangements.

Stock Options and Warrants

	2006		2005	
	Options	Ave Price	Options	Ave Price
Outstanding, and exercisable, beginning of year	455,125	$10.00	250,000	$12.68
Expired and cancelled (i)	–	–	(250,000)	12.68
Warrants granted (ii)	151,430	5.83	455,125	10.00
Outstanding and exercisable, end of year	606,555	$ 8.96	455,125	$10.00

i As at December 31, 2005, 130,000 stock options were cancelled due to the cancellation of an investment relations consulting contract. The remaining 120,000 stock options expired.

ii During 2005, 910,250 shares were issued, including an option to acquire 455,125 additional shares at $10.00 per share, expiring April 11, 2007.

Transactions with Related Parties

Directors' fees in the amount of $2,000.00 were paid to each Director of the Corporation for his participation in Board of Directors and Committee Meetings. The Directors and Senior Officers of the Corporation or entities affiliated with the Directors and Senior Officers, provided consulting services during the Year at a cost of $58,606 (2005 – $246,000). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Critical Accounting Estimates

The Corporation has acquired a number of entities through share exchange of common shares. Shares exchanged in order to acquire the respective companies have been valued at the respective acquisition or announcement of agreement to acquire, based on the average closing market price of the Corporation's common shares three days prior and three days subsequent to the respective dates. HTC accounts for these operations using the purchase method of consolidation. Transactions are summarized below.

Included in current assets of BTC are refundable scientific research and experimental development (SR&ED) amounts of $110,172 anticipated from BTC's year ending March 31, 2006 ($17,382 subsequently received as filed) and the period ending December 20, 2006 being the change in control date. As BTC was a Canadian Controlled Private Corporation until the change in control date, it is eligible for a 100% refund of 35% of Eligible SR&ED expenditures. The amount of the SR&ED refund is subject to review and evaluation by the Canada Revenue Agency. Should these amounts not be realized, adjustments will be made in the year of determination.

Goodwill and intangible assets arise from the acquisition of the subsidiaries. GAAP requires that identifiable intangible assets that meet recognition criteria be identified,

Transactions

	Thermochem	BTC	CO_2 Technologies
Acquisition Date	December 23, 2004	December 20, 2006	November 24, 2006
Share Valuation Date	June 24, 2004	August 22, 2006	November 24, 2006
Price per Share (approximate)	$4.30	$1.36	$2.09
Number of Shares	2,313,568	591,500	602,000
Purchase Price	$9,948,342	$803,595	$1,256,460
Acquisitions Costs	59,021		
Costs of Acquisition			
Current Assets	$799,680	$192,017	$9,737
Property Plant & Equipment	5,403	–	472
Intangible Assets	5,850,000	574,943	888,650
Goodwill	3,365,099	100,000	359,282
Current Liabilities	(12,819)	(63,365)	(1,681)
	$10,007,363	$803,595	$1,256,460

Goodwill and Intangible Assets	December 31, 2006	December 31, 2005
Goodwill	$3,824,381	$3,365,099
Intangible Assets not subject to Amortization (Plans, Designs, Agreements and Name Branding)	1,658,656	850,000
Intangible Assets subject to amortization (Contractual)	5,654,504	5,000,000
Amortization of Intangible Assets	(1,207,029)	(603,514)
	$9,930,511	$8,611,585

valued and disclosed separately from goodwill. Items giving rise to intangibles and related goodwill include, but are not limited to: intellectual property (i.e. rights to provisional patents, technology rights software rights), contractual rights with advantageous conditions, human resources (i.e. research teams, project management, patent resources), branding and name recognition related items (literature, data base, videos, domain names, etc) as well as various other items. Goodwill comprises the difference between the purchase price of the respective subsidiary and identifiable tangible and intangible assets. Management continuously evaluates the allocation between goodwill and intangibles. Any adjustments resulting from this process would result in a reclassification between identifiable intangible assets and goodwill.

As at the date of the Annual Financial Statements for the Year, Management is not aware of anything that would impair the value of intangible assets not subject to amortization or goodwill and accordingly has made no provision to reduce these amounts.

During the Year the Corporation acquired 51% of the voting stock of a newly formed company, HTC International Inc., for nominal consideration. As the company was newly formed there were no assets or liabilities at acquisition date. The Corporation accounts for this acquisition using the purchase method of accounting. Non-controlling Interest reflects the 49% interest held outside the Corporation. As operations have just commenced and as the agreement calls for cash injections by the Non-Controlling Interest participant, the amount of the deficiency in subsidiary operations is not anticipated to default to the majority shareholder.

Change in Accounting Principles

The Corporation did not implement any changes to accounting policies during the Year.

Future accounting policy changes:

The Canadian Institute of Chartered Accountants has issued three new accounting standards: Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, and Section 3865, Hedges. These standards will be effective January 1, 2007.

Under the new standards, all financial instruments will be classified as one of: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other liabilities.

Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income.

Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standards also permit designation of any financial instrument as held-for-trading upon initial recognition.

Financial Instruments

The Corporation's financial instruments consist of cash, accounts receivable, long term investments, accounts payable and accrued liabilities. The fair values of these instruments approximate their carrying value due to their short-term nature and the terms associated with the financial instruments.

Effect of future accounting standards changes:

The estimated impact to retained earnings effective January 1, 2007 resulting from applying the new financial instruments accounting standards will not be significant.

Other MD&A Requirements

The Corporation has not yet incurred any research costs that meet the criteria for capitalization nor are there any deferred development costs.

Expensed Research and Development costs and General and Administration Expenses are included in the Annual Financial Statements for one Year. Total accumulated Research and Development costs expensed from December 23, 2004 to December 31, 2006 were $484,741. Research and development cost incurred by subsidiaries prior to their acquisition are not included in this amount.

Forward Looking Statements

The information and opinions expressed herein involve known and unknown risks and uncertainties that may cause the Corporation's actual results or outcomes to be materially different from those anticipated and discussed herein. In assessing forward-looking statements contained herein, readers are urged to read carefully all cautionary statements contained in these Financial Statements and exhibits, and in those other filings with the Corporation's Canadian regulatory authorities as found in 'www. SEDAR.com'. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements or other future events. We are under no duty to update any of our forward-looking statements after the date of this Annual Report, other than as required and governed by law.

Signed "Lionel Kambeitz"
Chairman and CEO

Signed "Jeffrey Allison"
Chief Financial Officer

Management's Responsibility for Financial Statements

To the Shareholders of HTC Hydrogen Technologies Corp.

The Management's Discussion and Analysis and Audited Consolidated Financial Statements included in the report of HTC Hydrogen Technologies Corp. for the years ended December 31, 2006 and 2005, are the responsibility of Management and have been approved by the Board of Directors ("Board"). Management has prepared the Management's Discussion and Analysis and Consolidated Financial Statements in accordance with generally accepted accounting principals in ("GAAP") Canada. The financial information presented in this report is consistent with that in the Consolidated Financial Statements.

To ensure the integrity and objectivity of the financial data, Management maintains a comprehensive system of internal controls, including written policies and procedures. These measures provide reasonable assurance that transactions are authorized, assets are properly safeguarded and reliable financial records are maintained for external purposes in accordance with GAAP. Management believes the Corporation's internal disclosure controls and procedures over financial reporting to be effective.

The Board fulfills its responsibility with regard to the financial statements, by meeting periodically with Management, the Audit Committee as well as with the external auditors. The Board is responsible for recommending to the shareholders the engagement or re-appointment of the external auditor. The auditors have free access to the Board to discuss their audit work and the quality of financial reporting.

We have reviewed the filing of the Corporation's Management's Discussion and Analysis, Consolidated Financial Statements, and attachments thereto for the twelve month period ended December 31, 2006 contained in the 2006 Annual Report. Based on our knowledge, this filing does not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, with respect to the Year covered by this filing. The statements together with the other financial information included in this filing fairly present in all material respects the financial condition, results of operation and cash flows of the Corporation.

Signed "Lionel Kambeitz"
Chairman and CEO

Signed "Jeffrey Allison"
Chief Financial Officer

FINANCIAL STATEMENTS

YEAR ENDING DECEMBER 31, 2006

Auditors' Report

To the Shareholders of HTC Hydrogen Technologies Corp.

We have audited the consolidated balance sheets of HTC Hydrogen Technologies Corp. as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Virtus Group LLP

Chartered Accountants
Regina, Canada
April 27, 2007

Consolidated Balance Sheets

(In Canadian dollars)

Years ended December 31,	2006 $	2005 $
ASSETS		
Current assets:		
Cash	413,483	1,384,181
Short term investments	1,000,000	1,000,000
Accounts receivable	211,307	51,460
Prepaid expense	126,416	245,254
	1,751,206	2,680,895
Non Controlling Interest (note 3)	13,361	–
Property, plant and equipment (note 4)	58,713	56,792
Long term investments (note 5)	289,487	67,404
Organizational costs (note 6)	16,125	4,000
Goodwill and intangibles (note 3)	9,930,511	8,611,584
	12,059,403	11,420,675
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	131,725	21,819
Shareholders' equity:		
Share capital (note 7)	17,306,293	14,656,489
Deficit	(5,378,615)	(3,257,633)
	11,927,678	11,398,856
Future operations (note 1)		
Commitments (note 14)		
	12,059,403	11,420,675

See accompanying notes to Consolidated Financial Statements

Consolidated Statements of Operations and Deficit

(In Canadian dollars)

Years ended December 31,	2006 $	2005 $
Revenue:		
Consulting Services	306,892	–
Expenses:		
Commercialization, product development and Administration	1,811,626	1,309,973
Research and development	155,572	329,169
Amortization	624,433	620,290
	2,591,631	2,259,432
Income (loss) from operations	(2,284,739)	(2,259,432)
Other income:		
Interest and other income	132,977	24,789
Non Controlling Interest (note 3)	29,860	–
Net income (loss) before Unusual Item	(2,121,902)	(2,234,643)
Unusual Item (note 10)	920	–
Net income (loss)	(2,120,982)	(2,234,643)
Contributed surplus	–	4,500
Deficit – Beginning of year	(3,257,633)	(1,027,490)
Deficit – End of year	(5,378,615)	(3,257,633)

See accompanying notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(In Canadian dollars)

Years ended December 31,	2006 $	2005 $
Cash flows from operating activities:		
Net income (loss)	(2,120,982)	(2,234,643)
Items not affecting cash:		
Amortization	624,433	620,290
Non controlling interest	(29,860)	–
Change in working capital other than cash	145,359	197,144
	(1,381,050)	(1,417,209)
Cash flows from investing activities:		
Decrease (increase) of short term investment	–	(765,422)
Non-Participating interest	16,500	–
Increase on long term investments	(222,084)	10,993
Purchase of equipment	(22,267)	(27,460)
Increase in Organizational cost	(11,692)	–
	(239,543)	(781,889)
Cash flows from financing activities:		
Cash from issuance of stock	649,895	3,525,101
Increase (decrease) in cash	(970,698)	1,326,003
Cash and cash equivalents – Beginning of year	1,384,181	58,178
Cash and cash equivalents – End of year	413,483	1,384,181

See accompanying notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

1. Future operations:

HTC Hydrogen Technologies Corp. (formerly Westrange Corp.) is incorporated under the *Business Corporations Act* (Alberta). HTC Purenergy ("HTC" or the "Corporation") has been registered as the business name of HTC Hydrogen Technologies Corp.

On December 23, 2004, the Corporation completed the acquisition of HTC Hydrogen Thermochem Corp. ("Thermochem"). Thermochem is a development stage research company, which is focused on development of cost effective production of hydrogen and CO_2 capture technologies.

These Financial Statements have been prepared on the going concern basis which assumes that the Corporation will realize the carrying value of its assets and satisfy its obligations and commitments as they become due in the normal course of operations. If the going concern basis was not appropriate for these Financial Statements, then adjustments would be necessary in the carrying value of assets and liabilities and the reported expenses and the balance sheet classification used.

Management believes there are sufficient funds to meet existing obligations for the majority of the year and are actively pursuing additional funds by means of private placements, public offerings and licensing/royalty opportunities with respect to its intellectual property. Management believes that these actions will be sufficient to mitigate concerns associated with the "going concern" assumption used in preparing these Financial Statements.

2. Significant accounting policies:

These Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Those principles, which have a significant impact on the Consolidated Financial Statements, are summarized below.

Consolidation

The Consolidated Financial Statements include the accounts of the Corporation and its subsidiaries 101079353 Saskatchewan Ltd., HTC Hydrogen Thermochem Corp., HTC International Inc., BTC BioEnergy Technologies Corp. ("BTC") and CO_2 Technologies Pty Ltd ("CO_2 Technologies"). The Corporation has accounted for the subsidiaries using the purchase method of accounting.

Foreign Currency Translation

The Corporation utilizes the temporal method for translating foreign currency of integrated foreign operations (CO_2 Technologies). In accordance with these provisions monetary assets and liabilities are translated using the rate of exchange at the consolidated financial statement date and non-monetary assets liabilities are translated using the historical exchange rate at the transaction date. Revenues and expenses are translated using the average exchange rate in effect for the period.

Property, plant and equipment

The Corporation amortizes its property, plant and equipment over their estimated useful lives utilizing the declining-balance method at the following annual rates except for leasehold improvements which are amortized on a straight line bases over three years.

Equipment	30%
Vehicles	30%

Long term Investments

The long term investments are valued at the lower of cost and net realizable value.

Intangibles

Identifiable intangible assets acquired through acquisitions that are subject to amortization are amortized using the straight-line method over their estimated useful lives of 4 to 20 years. Intangible assets not subject to amortization are evaluated for impairment and any impairment is charged to earnings as identified.

Research and development

Research and Development costs are expensed as they are incurred in accordance with specific criteria set out under Canadian GAAP.

Goodwill

The excess of the purchase price over the fair market value of identifiable assets acquired and liabilities assumed is recognized as goodwill. Goodwill is evaluated for impairment and any impairment is charged to earnings as identified.

2. Significant accounting policies: (continued)

Stock-based compensation

The Corporation has a stock based compensation plan as described in note 8. The Corporation uses the fair value based method to account for stock-based payments to non-employees and employees awards, that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by issuance of equity instruments granted on or after January 1, 2002. No compensation expense is recognized for all other stock based compensation. Any consideration paid by employees on the exercise of stock options or purchase of stock is credited to share capital. There is currently no stock based compensation offered to employees or directors of the Corporation.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax basis (temporary differences). The resulting changes in the net future tax asset or liability are included in income. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Future income tax assets are evaluated and if realization is not considered "more likely than not" a valuation allowance is provided.

Use of estimates

Management of the Corporation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the year to prepare these Financial Statements in conformity with Canadian GAAP. Actual results could differ from these estimates.

Future accounting policy changes

The Canadian Institute of Chartered Accountants has issued three new accounting standards: Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, and Section 3865, Hedges. These standards will be effective January 1, 2007.

Under the new standards, all financial instruments will be classified as one of: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other liabilities.

Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standards also permit designation of any financial instrument as held-for-trading upon initial recognition.

3. Business acquisition:

On December 23, 2004, the Corporation completed the acquisition of 100% of the authorized shares of Thermochem for a purchase price of $9,948,342, funded through the issuance of 2,313,568 common shares of the Corporation plus acquisition costs of $59,021. The value of each common share issued of $4.30 was based on the average closing market price of the Corporation's common shares three days prior and three days subsequent to the announcement date of the acquisition agreement, being June 24, 2004. The acquisition of Thermochem has been accounted for under the purchase method with the Corporation identified as the acquirer. Accordingly, the results of operations of Thermochem have been consolidated from the date of acquisition of December 23, 2004. The costs of acquisition were allocated to the acquired assets as follows:

Current assets	$ 799,680
Property, plant and equipment	5,403
Intangible assets	5,850,000
Goodwill	3,365,099
Current liabilities	(12,819)
Purchase price	$10,007,363

During the year ended 2006 ("Year"), the Corporation acquired 51% of the voting stock of a newly formed company, HTC International Inc., for nominal consideration. As the company was newly formed there were no assets or liabilities at acquisition date. The Corporation accounts for this acquisition using the purchase method of accounting. Non-Controlling Interest reflects the 49% interest held outside the Corporation. As operations have just commenced and as the agreement calls for cash injections by the Non-Controlling Interest participant, the amount of the deficiency in subsidiary operations is not anticipated to default to the majority shareholder.

3. Business acquisition: (continued)

On December 20, 2006, the Corporation completed the acquisition of 100% of the authorized shares of BTC for a purchase price of $803,595, funded through the issuance of 591,500 Class A common shares of the Corporation. The value of each common share issued of approximately $1.36 was based on the average closing market price of the Corporation's common shares three days prior and three days subsequent to the announcement date of the acquisition agreement, being August 22, 2006. The acquisition of BTC has been accounted for under the purchase method with the Corporation identified as the acquirer. Accordingly, the results of operations of BTC have been consolidated from the date of acquisition of December 20, 2006. The costs of acquisition were allocated to the acquired assets as follows:

Current assets	$ 192,017
Intangible assets	574,943
Goodwill	100,000
Current liabilities	(63,365)
Purchase price	$ 803,595

Included in current assets are refundable scientific research and experimental development (SR&ED) amounts of $110,172 anticipated from BTC's period ending March 31, 2006 ($17,382 subsequently received as filed) and the period ending December 20, 2006 being the change in control date. As BTC was a Canadian Controlled Private Corporation until the change in control date, it is eligible for a 100% refund of 35% of Eligible SR&ED expenditures. The amount of the SR&ED refund is subject to review and evaluation by the Canada Revenue Agency. Should these amounts not be realized, adjustments will be made in the year of determination.

On November 24, 2006, the Corporation completed the acquisition of 100% of the authorized shares of CO_2 Technologies (an Australian registered company) for a purchase price of $1,256,460, funded through the issuance of 602,000 Class A common shares of the Corporation. The value of each common share issued of approximately $2.09 was based on the average closing market price of the Corporation's common shares three days prior and three days subsequent to the to the acquisition date being November 24, 2006. The acquisition of CO_2 Technologies has been accounted for under the purchase method with the Corporation identified as the acquirer. Accordingly, the results of operations of CO_2 Technologies have been consolidated from the date of acquisition of November 24, 2006. The costs of acquisition were allocated to the acquired assets as follows:

Current assets	$ 9,737
Property, plant and equipment	472
Intangible assets	888,650
Goodwill	359,282
Current liabilities	(1,681)
Purchase price	$ 1,256,460

Goodwill and intangible assets arise from the acquisition of the subsidiaries. GAAP requires that identifiable intangible assets that meet recognition criteria be identified, valued and disclosed separately from goodwill. Items giving rise to intangibles and related goodwill include, but are not limited to: intellectual property (i.e. rights to provisional patents, technology rights software rights), contractual rights with advantageous conditions, human resources (i.e. research teams, project management, patent resources), branding and name recognition related items (literature, data base, videos, domain names, etc) as well as various other items. Goodwill comprises the difference between the purchase price of the respective subsidiary and identifiable tangible and intangible assets. Management continuously evaluates the allocation between goodwill and intangibles. Any adjustments resulting from this process would result in a reclassification between identifiable intangible assets and goodwill.

	Dec. 31, 2006	Dec. 31, 2005
Goodwill	$3,824,381	$3,365,099
Intangible Assets not subject to amortization (Plans, Designs, Agreements and Name Branding)	1,658,656	850,000
Intangible Assets subject to amortization (Contractual)	5,654,504	5,000,000
Amortization of Intangible Assets	(1,207,029)	(603,514)
	$9,930,511	$8,611,585

As at the date of the Financial Statements, Management is not aware of anything that would impair the value of intangible assets not subject to amortization or goodwill and accordingly has made no provision to reduce these amounts.

4. Property, plant and equipment:

As at December 31, 2006	Cost	Accumulated Amortization	Net Book Value
Equipment	$268,783	$227,714	$41,069
Leasehold improvements	16,174	9,048	7,126
Vehicles	22,920	12,402	10,518
	$307,877	$249,164	$58,713

As at December 31, 2005	Cost	Accumulated Amortization	Net Book Value
Equipment	$246,465	$213,168	$33,297
Leasehold Improvements	16,174	6,519	9,655
Vehicles	22,500	8,660	13,840
	$285,139	$228,347	$56,792

5. Long term investments:

Long term investments represent amounts due on various agreements and are comprised of the following:

	December 31, 2006	December 31, 2005
Mortgage receivable bearing interest at 8% recoverable in monthly installments of 1,406	$ –	$67,404
Note receivable non interest bearing recoverable in 56 monthly payments (see note 10)	68,698	–
Agreement receivable generating revenue of 1.08%. $10,000 recoverable on April 1/06 and thereafter 120 monthly payments of $1,200 with a lump sum payment of $104,121 on April 1, 2016	220,789	–
	$289,487	$67,404

6. Organizational Costs:

Organizational costs are comprised of:

	December 31, 2006	December 31, 2005
Frankfurt Exchange registration	$ –	$4,000
Patent applications costs	11,282	–
Incorporation outlay	4,843	–
	$16,125	$4,000

No provision for amortization has been made.

7. Share capital:

Authorized:
An unlimited number of common shares
An unlimited number of preferred shares

Issued:	**As at December 31, 2006**		**As at December 31, 2005**	
	Number	**Amount $**	**Number**	**Amount $**
Common shares				
Balance, Beginning of year	9,957,399	$14,656,489	9,047,149	$11,131,388
Issued under private placement	151,430	589,749	910,250	3,525,101
Issued under exercise of stock options	–	–	–	–
Issued to acquire BTC BioEnergy Technologies Corp.	591,500	803,595	–	–
Issued to acquire CO_2 Technologies Pty Ltd	602,000	1,256,460	-	-
Balance, end of year	11,302,329	$17,306,293	9,957,399	$14,656,489

On April 12, 2005 the Corporation closed a private placement issuing 910,250 units, each unit consisting of one common share and one-half of one common share purchase warrant at a price of $10.00 per unit for gross proceeds of $3,641,000 (net proceeds after costs $3,525,101). Each whole warrant entitled the holder to acquire one common share at a price of $10.00 per share until April 11, 2007.

On April 10, 2006 the Corporation issued 151,430 unites, each unit consisting of one common shares and one common share purchase warrant, for the gross proceeds of $589,749 ($530,000 USD). Each warrant entitles the holder to acquire an additional one common share until July 1, 2007 for the Canadian equivalent of $5.00 USD per share on the exercise date.

8. Stock options and warrants:

The Corporation has a stock option plan for directors, officers, employees and consultants providing for the issuance of options to acquire up to ten percent of the issued and outstanding common shares of the Corporation. As at December 31, 2006 there were no stock options issued to directors, officers, employees or consultants.

The following table reflects the stock option and warrants activity from January 1, 2005 through December 31, 2006 and the weighted average exercise price:

	2006		**2005**	
	Options	**Ave Price**	**Options**	**Ave Price**
Outstanding, and exercisable, beginning of year	455,125	$10.00	250,000	$12.68
Expired and cancelled (i)	–	–	(250,000)	12.68
Warrants granted (ii)	151,430	5.83	455,125	10.00
Outstanding and exercisable, end of period	606,555	$8.96	455,125	$10.00

i. As at December 31, 2005, 130,000 stock options were cancelled due to the cancellation of an investment relations consulting contract. The remaining 120,000 stock options expired on May 14, 2005.

ii. During the year ending December 31, 2005 910,250 shares were issued, including an option to acquire 455,125 additional shares at $10.00 per share, expiring April 11, 2007.

On April 10, 2006, 151,430 shares were issued, including an option to acquire 151,430 additional shares at $5.00 USD per share, ($5.83 CAD as at December 31, 2006) expiring July 1, 2007.

9. Financial instruments:

The Corporation's financial instruments consist of cash, short term investments, accounts receivable, long term investments, accounts payable and accrued liabilities. The fair values of these instruments approximate their carrying value due to their short-term nature and the terms associated with the financial instruments.

Effect of future accounting standards changes: The estimated impact to retained earnings effective January 1, 2007 resulting from applying the new financial instruments accounting standards will not be significant.

10. Unusual item:

On March 15, 2006 the Corporation entered into an agreement to sell the shares of 311688 Saskatchewan Ltd. for proceeds of $104,321, of which $25,809 was due at closing with the balance payable over 56 monthly installments resulting in a gain on disposition of $920.

The disposition of this subsidiary allowed the Corporation to recover losses incurred by the subsidiary since acquisition of $14,135.

11. Provision for income taxes:

Income tax provision (recovery) differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rate of 39% (2005 – 39%) for the following reasons:

	2006	2005
Computed income tax provision (recovery)	$(827,183)	$(871,511)
Adjustment to net future tax assets for enacted changes in tax laws and rates and other differences	–	–
Change in valuation allowance	827,183	871,511
	$ –	$ –

The Corporation's current expenditures on SR&ED are potentially eligible for a Federal tax credit of 20% and a Saskatchewan tax credit of 15%. As at December 31, 2006 the Corporation has an anticipated balance of approximately $141,514 of tax credits available to reduce future year taxes (expiring in December 31, 2015 and 2016). The amounts of tax credits ultimately received by the Corporation are subject to review by the Canada Revenue Agency and the Saskatchewan Minister of Finance for technical and financial aspects of the tax credit claims.

Qualifying SR&ED expenditures (after consideration of tax credits) are deductible against taxable income in the year incurred or may be carried forward indefinitely. As at December 31, 2006 the Corporation has approximately $1,203,977 of SR&ED expenditures available to reduce future years taxes. These amounts are subject to review and evaluation by the Canada Revenue Agency. Actual qualifying amounts may vary from managements estimate in the event the Canada Revenue Agency has an alternative interpretation of qualifying amounts, the difference would transfer to the non capital loss carry forward amounts.

The Corporation has approximately $3,714,115 of non-capital losses available at December 31, 2006 to reduce taxable income of future years. These losses expire in periods from 2008 – 2016.

The Corporation has capital loss carry forwards arising from its operations of approximately $347,000 available to reduce future years taxable capital gains.

The Corporation has undepreciated capital cost claims in excess of net book value of approximately $213,871 available to reduce future years taxes. In addition, the Corporation has capitalized $51,562 of share issuances costs which are deductible for tax purposes on straight-line basis over 5 years of which $36,094 is available for future years.

12. Per share amounts:

Basic net earnings (loss) per common share have been calculated using the weighted average number of common shares outstanding during the year of 10,146,192 (2005 – 9,701,440).

	For the period ended Dec. 31, 2006	For the period ended Dec. 31, 2005
Net earnings (loss) per common share	$(.20)	$(.23)

Diluted net loss per common share is not presented, as the effect of common share options would be anti-dilutive.

13. Supplemental cash flow information:

	December 31, 2006	December 31, 2005
Cash interest paid during the year	$ 79	$ 2,913
Cash interest received during the year	60,402	24,295

14. Commitments:

The Corporation signed a three year Collaborative Research Agreement (with a three year renewal) dated May 30, 2003 with the University of Regina to complete research on the production of hydrogen. The terms of the agreement require the Corporation to pay to the University an amount of $160,000 per year and an additional funding fee of 3% on share capital raised after the signing date to a maximum of $300,000. As of December 31, 2006, Thermochem has paid $141,488 of the 3% additional funding fee.

On May 17, 2006 the Corporation extended its agreements with the University of Regina through the execution of a Memorandum of Understanding for Research and Experimental Development and Licensing. This document was finalized in an agreement executed on December 8, 2006 with an effective date of June 1, 2006 and was amended by written agreement on December 8, 2006 . In terms of the agreement, HTC will sponsor an Industrial Research Chair in Clean Energy at the University of Regina until May 31, 2008, with an option to renew for a two year period. During the term of this agreement, HTC will supply personal services of a research scientist. Thermochem will make quarterly payments for equipment and consumables of approximately $8,500 and BTC will make quarterly payments of $33,320 plus consumables to the University of Regina.

On July 18, 2005 the Corporation entered into a Sponsors' Agreement with the University of Regina, the International Test Centre for CO_2 Capture ("ITC"), providing the Corporation access to CO_2 capture technologies developed by the ITC. In terms of the agreement the Corporation is obliged to pay $50,000 USD annually, for a period of three years.

The Corporation leases office space under an operating lease expiring August 31, 2007. Minimum lease payments to expiration are as follows:

2007	16,575

15. Related Party Transactions:

During the Year, the Corporation paid directors' fees of $2,000 to each director of the Corporation (2005 Nil). The directors and senior officers of the Corporation, or entities affiliated with the directors and senior officers, provided consulting services during the Year at a cost of $58,606 (2005 $246,000).

16. Subsequent Events:

On February 28, 2007 HTC acquired all the issued and outstanding shares of Performance CO_2 Integration Inc. in exchange for 190,000 Class A common shares of HTC, for purchase consideration of $499,700. The value of each common share issued of $2.63 was based on the average closing market price of the Corporation's common shares three days prior and three days subsequent to the to the acquisition date being February 28, 2007. The acquisition will be accounted for using the purchase method of consolidation.